PEPSI-COLA
COMPANY
1958
ANNUAL REPORT
TO STOCKHOLDERS

BOARD OF DIRECTORS

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Honorary Chairman
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Vice-Chairman
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CHRISTOPHER E. HOLZWORTH
MILWARD W. MARTIN
J. LINCOLN MORRIS
EMMETT R. O'CONNELL
GEORGE C. TEXTOR

OFFICERS

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and Chief Executive Officer
ALFRED N. STEELE

President
HERBERT L. BARNET

Vice-Presidents

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Executive Vice-President

MILWARD W. MARTIN
Senior Vice-President
and Secretary

LOUIS E. NUFER
Senior Vice-President
and Treasurer

THOMAS ELMEZZI
Senior Vice-President,
Manufacturing

CHARLES N. BAKER
Promotion

JOHN L. BATE
Western Division

D. MITCHELL COX
Public Relations

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Marketing

STEPHEN L. GALVIN
Director of Research

EUGENE B. GILBERT
Southern Division

STEPHEN J. GULLO
Product Control

PHILIP B. HINERFELD
Advertising

MARC A. LEFEBVRE
Central Division

SEYMOUR LUSTERMAN
Market Research

HENRY E. McGOVERN
Equipment

NEIL A. MORRISON
Plant Design
and Engineering

CARL B. SALTS
Eastern Division

JOHN A. SCHIFFMAN

JOHN J. SOUGHAN
Marketing Services

A. ALLEN THOMSON
Sugar Division

ADOLPH KRIEGER, JR.
Controller

ALFRED N. STEELE
Chairman of the Board of Directors
Pepsi-Cola International, Ltd.

DONALD M. KENDALL
President of Pepsi-Cola International, Ltd.

PHILIP RUBENSTEIN
President of Metropolitan Bottling Company, Inc.

FRANK W. McINTOSH
President of Pepsi-Cola Company of Canada, Ltd.

TRANSFER AGENTS

THE MARINE MIDLAND TRUST COMPANY OF NEW YORK
THE FIRST NATIONAL BANK OF JERSEY CITY
HARRIS TRUST AND SAVINGS BANK (CHICAGO, ILLINOIS)

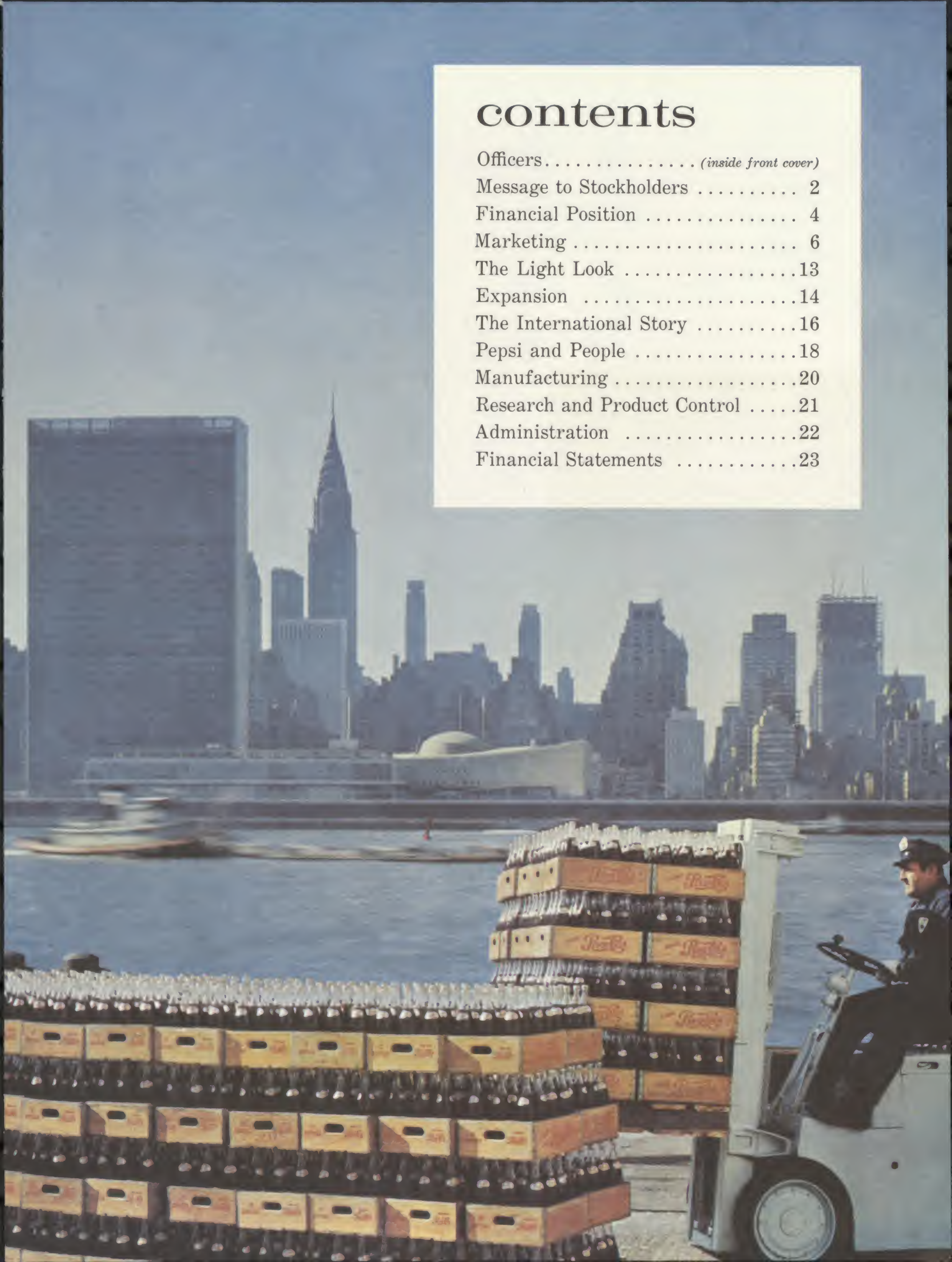
REGISTRARS

THE CHASE MANHATTAN BANK, NEW YORK
THE FIRST NATIONAL BANK OF CHICAGO

COUNSEL

HAYS, PODELL, ALGASE, CRUM AND FEUER
General Counsel to Pepsi-Cola Company

SELIGSON, MORRIS AND NEUBURGER
General Counsel to Metropolitan Bottling Company, Inc.



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to the stockholders of Pepsi-Cola Company:

Alfred N. Steele

CHAIRMAN OF THE BOARD

Nineteen fifty-eight was a year of significant progressive evolution for Pepsi-Cola. Sales, earnings, and profit exceeded all previous records. Our rate of growth was the highest in our industry, as it has been each year since your incumbent management was instituted in 1950.

In these nine years our sales have increased 167 per cent, some five times greater than the estimated growth of the rest of the industry over this same period.

Early in the year when many counseled retrenchment in the face of a predicted recession, we vigorously and widely counseled greater investment for expansion. In two-day meetings across the country we exposed every American Pepsi Bottler to this philosophy; Bottler investment in expansion rose to the highest in history.

We redesigned our marketing themes, introduced dramatic new marketing equipment, and instituted new marketing forces.

During the year we further reduced seasonal fluctuation in our income by acquiring the five bottling properties of the DOK group in South Africa, all south of the equator where seasonal sales reverse those north of that line. In addition, we broadened sources of our income by this acquisition and by that of the bottling properties in St. Louis, Missouri.

On the basis of continuing activities and policies thus proved effective, and on which the following pages are a report to you, prospects of continued growth are encouragingly bright.

With the Approval of the Board of Directors,
ALFRED N. STEELE, *Chairman*

Herbert L Barnet

PRESIDENT

financial position

EARNINGS for 1958 *before* provisions for taxes and foreign activities were $23,989,647 as compared with earnings before taxes of $19,669,675 as reported in 1957.

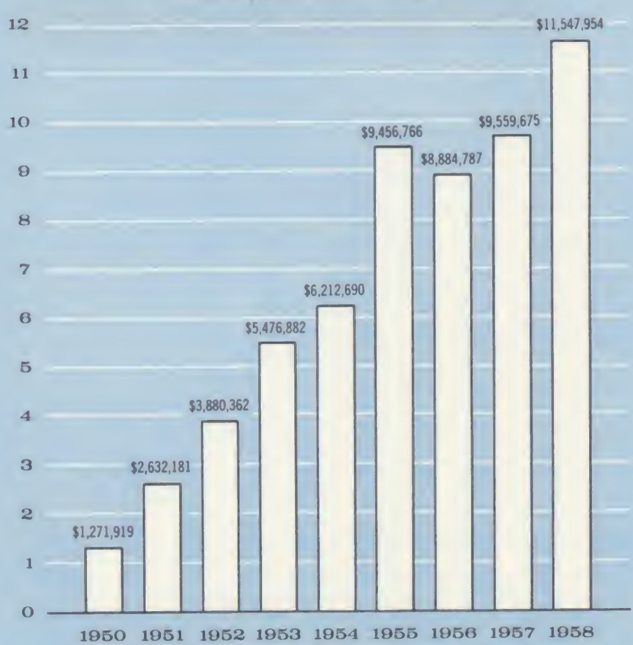
Federal and foreign taxes on 1958 earnings were $11,650,000 compared with $10,110,000 as reported in 1957. Earnings *after* provisions for taxes and foreign activities in 1958 were $11,547,954 compared with $9,559,675 after taxes as reported in 1957.

Earnings per share on the 6,138,755 shares of capital stock outstanding at the end of 1958 were $1.88 compared with $1.61 as reported in 1957, on 5,926,205 shares outstanding.

In addition, the Company held in reserve and did not include as earnings for 1958 certain income of foreign subsidiaries which in prior years it was the custom to report as earnings. The provision for this reserve amounted to $791,693 or another 13 cents per share on stock outstanding at the end of 1958. Had this amount been reported as earnings, as was the custom in years prior to 1958, the earnings per share of capital stock in 1958 would therefore have been $2.01 a share as compared with $1.61 as reported in 1957.

net income

MILLIONS OF DOLLARS

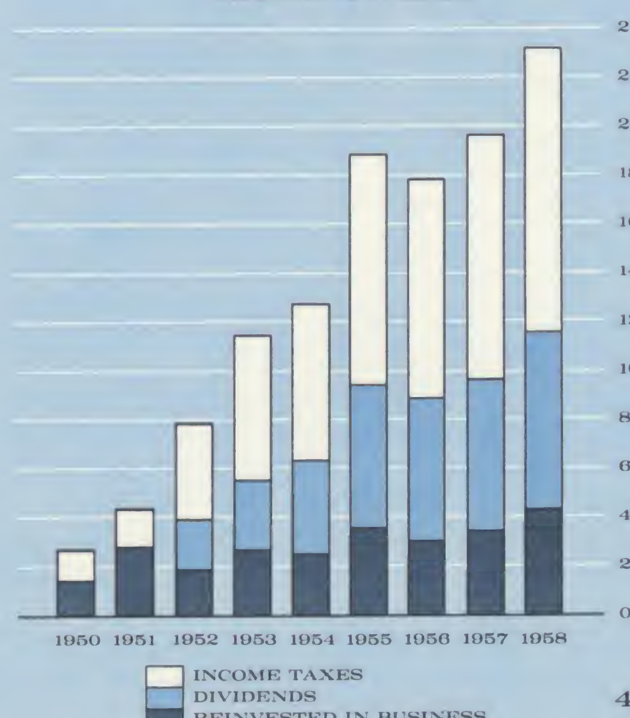


$.22	.46	.68	.95	1.07	1.60	1.50	1.61	1.88

EARNINGS PER SHARE OF CAPITAL STOCK

application of earnings

MILLIONS OF DOLLARS

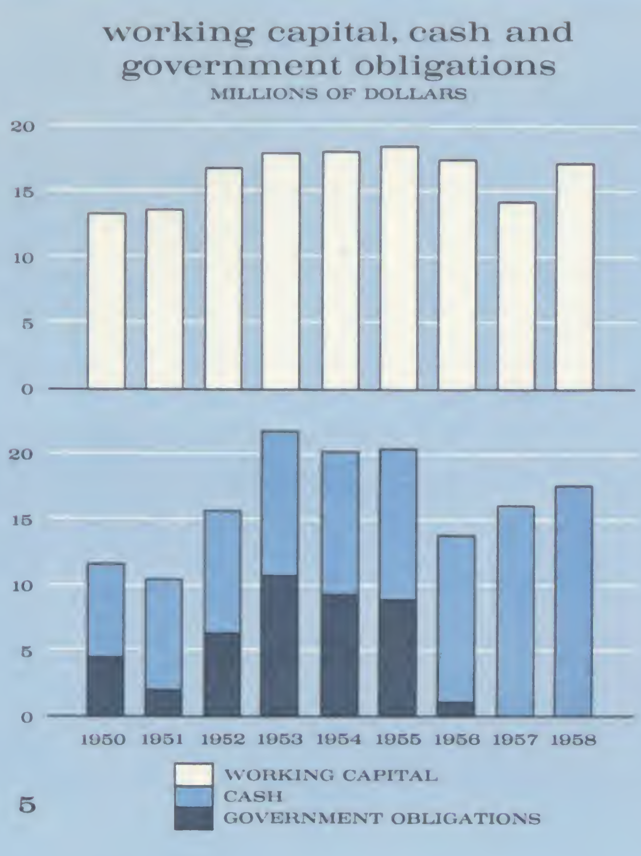


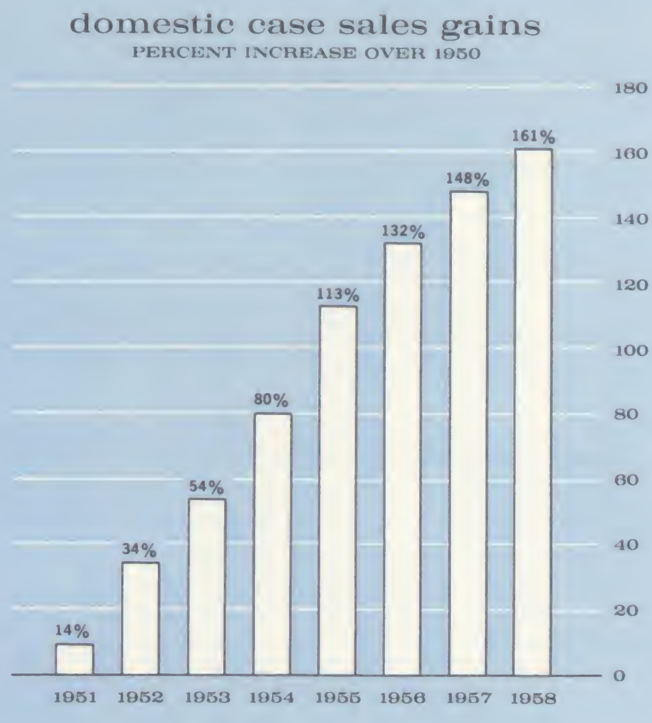
DIVIDENDS · The Board of Directors continued to authorize quarterly dividends of 30 cents per share for a total payment of $1.20 a share during 1958.

DECLARED	AMOUNT	PAID
February 28, 1958	.30	March 31, 1958
May 22, 1958	.30	June 30, 1958
August 28, 1958	.30	September 30, 1958
November 24, 1958	.30	December 31, 1958

SALES · Reported case sales both at home and overseas were the highest in the Company's history, and at a rate of growth substantially exceeding that estimated for the industry as a whole. Case sales were 167 per cent over those of 1949 and 161 per cent over those of 1950, when your management assumed direction of the Company.

In 1958, 62 domestic plants sold more than a million cases each; this compares with 58 such plants in 1957 and 13 such plants in 1950. Moreover, 378 domestic plants reached the highest *per capita* sales in their histories.





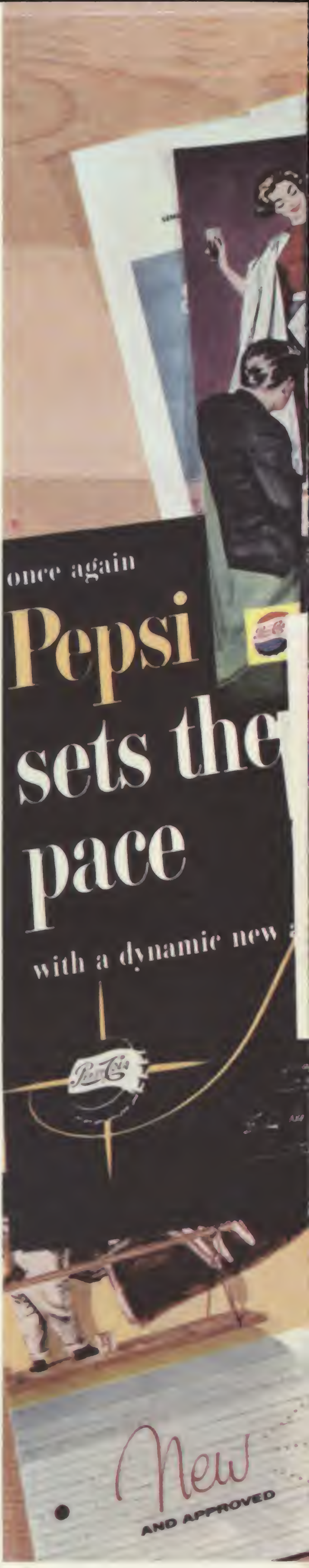
marketing

Since the potential market for Pepsi-Cola includes all people, the marketing of Pepsi must emphasize qualities appealing to all, seek out distribution to all people wherever they go, and keep pace with all shifting social trends.

In keeping with these needs, during 1958 we reconstructed both our marketing themes and our marketing organization.

advertising

NEW THEME · The "Light Refreshment" theme of the last several years gave way to a newer emphasis evolved from much study and creative research—the theme of "Be Sociable."




Young at Heart
House-warming party tonight ?
Be sociable...
Birthday party a
Good friends...gay tunes
Time for a Pepsi
BE SOCIABLE
Look Smart
Pepsi-Cola
Stay Young and Fair
Be Debonair
LIVE
ANNOUNCEMENTS FO
Be sociable-have a
A NEW CONCEPT IN
"Be So
ayouts
py

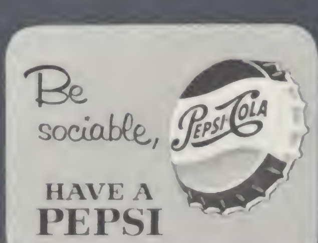
Be sociable, look smart,

Keep up to date with Pepsi,

Drink light refreshing Pepsi,

Stay young and fair and debonair,

Be sociable—have a Pepsi



NEW REFRESHMENT SONG

A major force to introduce this new theme was a new refreshment song, "Be Sociable," which replaced Pepsi's old and famous jingle. Popular as the old jingle had been, the times and our newer sales appeals had outmoded it, and it had become almost as much a hindrance as an asset. Its original words made a bargain appeal, and even though they had been changed almost ten years ago, they still hung in listeners' minds, still creating the image of a bargain instead of a quality refreshment. Thus, the jingle did not contribute to the product image in today's marketing but actually far too often controverted it.

The lyrics of the new refreshment song, on the other hand, create a more timely product image ("Be young and fair and debonair," "Look Smart," "Keep up to date," etc.), to enhance our marketing themes.

NEW DESIGNS · Fitting design to the new theme, the new visual advertisements for our print campaign make use of dramatic color and layout to emphasize the qualities of universal appeal, group consumption, and smart modernity.

Pepsi fits in.

INTRODUCTION OF THEME

Beginning in September, the Company spectacularly introduced the new refreshment song in the largest mass radio spot campaign in history, following a closed-circuit broadcast by Company Officials and network presidents, and all four major radio networks played the song time and again for thirteen weeks. Bottlers bought additional local time. During this "Spotacular" the song was exposed a total of 553,962,530 times, and won the Radio Advertising Bureau's 1958 Gold Record Award.

In print, the Pepsi message for the year totaled one and one half billion impressions in newspapers, Sunday supplements, and such national magazines as LIFE, McCALL'S, LADIES' HOME JOURNAL, SPORTS ILLUSTRATED, and others.

Investment in posters and point-of-purchase advertising by both Company and Bottlers decidedly increased over former years.

Summer sociability.

The new 12-ounce swirl bottle.

The Hostess.

The bright Pepsi Package.

packaging

The new swirl design for twelve-ounce and ten-ounce bottles introduced in May moved rapidly into plants all over the country. One hundred fifty plants converted these sizes to the new swirl, which will replace the older design everywhere.

In addition, the new $6\frac{1}{2}$-ounce swirl bottle, particularly adaptable for on-premise consumption by those who prefer the smaller size, was introduced into 126 additional markets to bring the total number of plants distributing this package up to 187 by year's end.

The Hostess bottle, already firmly established, by the end of 1958 was being sold by 152 domestic plants, an increase of 27 plants over 1957.

premix

Sales through Premix equipment (a process by which all ingredients are mixed in the bottling plant and sealed into large containers for delivery to outlets) bounded forward; more than 200 domestic plants have entered this new activity.

Professional form in the Pepsi-Boys' Club Open.

promotion

In scores of hundreds of public functions your Company enhanced the image of its product; made it an integral part of pleasant and memorable experiences for hundreds of thousands of consumers.

In June, our sponsorship of a major golfing event at the Pine Hollow Country Club on Long Island enriched the funds of the Boys Club of New York and was nationally acclaimed by the sporting world as the Pepsi Golf Championship.

At scores of national conventions Pepsi hospitality made many friends; among many thousands of influential Americans, delegates of the American Medical Association consumed 40,000 drinks of Pepsi and of the Junior Chamber of Commerce, 50,000.

Pepsi's sponsorship of Miss America nationally and locally identified the product and its associates with worthy community achievement. Every winner of a state contest (46) and many runners-up in the State Pageants were awarded

Family fun.

Fifty thousand people a week stood to watch a ten-minute movie on the production of Pepsi.

Miss America,
winner of a Pepsi scholarship.

Be Sociable . . .

Say Pepsi, please!

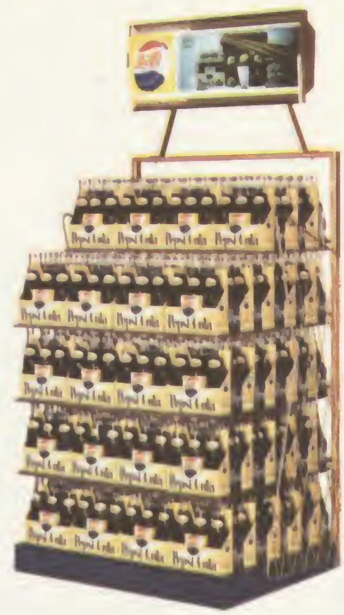
scholarships by your Company and the Pepsi Bottlers of the participating state. By year's end more than 300 such girls were attending school on funds partially contributed by Pepsi. In addition, under Pepsi sponsorship Miss America made personal appearances in dozens of cities, often at spectacular public events such as the Gator Bowl and the Orange Bowl football games.

Your Company's two-month exhibit in conjunction with that of Merrill Lynch, Pierce, Fenner, and Smith in Grand Central Railroad Station in New York City attracted more than 50,000 people each week to inspect a sales and financial display and to see a ten-minute movie on Pepsi.

company-owned plants

Metropolitan Bottling Company, Inc., the wholly-owned subsidiary which operates a group of plants in eighteen franchised territories, opened impressive new plants in Boston and in Pittsburgh and brought under its managerial direction the operations in Miami and St. Louis.

These and many other activities, coupled with the redesign of sales equipment, further increased the ready reception and welcome of the product and its image to a continuously enlarging public.



the light look

The dramatic new eye-catching design for on-premise vending equipment, a culmination of the dramatic new merchandising concept, began rolling off production lines early in the year and gained immediate acceptance with the public. Bottlers placed on location in outlets selling Pepsi more bottle vending machines, cup vending machines, premix units, and fountain dispensers than ever before in our history.

Distinguished by trimness, modernity, and smartness, the new design appeals to the American desire for the light look in living.

This smart new Pepsi facade continues to sweep the country also in the trim designs of cartons, carton display stands, and point-of-purchase materials—all the physical materials which greet the customer at the point of sale.

Conway, South Carolina

expansion in 1958

Domestically in 1958 Bottlers invested 30 per cent more in land and building than in the previous year to set an all-time record for Pepsi, and enormously to increase productive capacity for increased sales.

Twenty-three new bottling plants were completed in the United States, including three of the largest ever built, at Cincinnati, Pittsburgh, and Louisville. Others were located at Gadsden, Alabama; Yuma, Arizona; Little Rock, Arkansas; Eureka, Oroville, Salinas, Sunnyvale, and Ventura, California; Havana, Illinois; Brookville, Indiana; Fulton, Kentucky; Cape Girardeau and Flat River, Missouri; Pennsauken, New Jersey; Glens Falls and Keeseville, New York; Bryan, Ohio;

Keeseville, New York

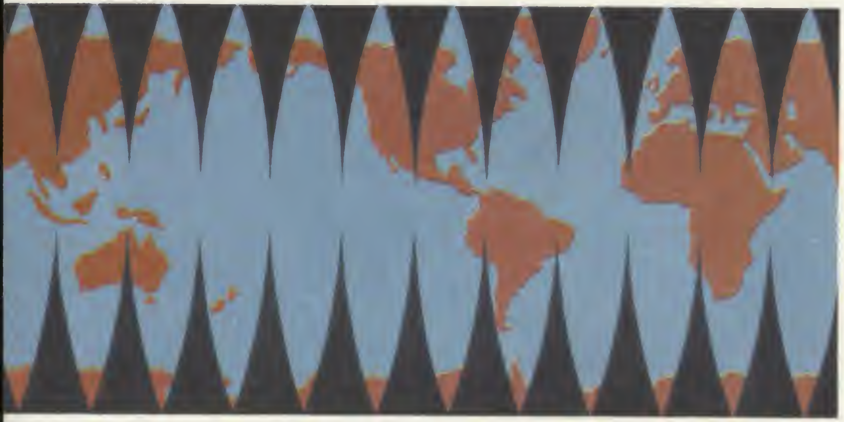
Cincinnati, Ohio

Conway and Orangeburg, South Carolina; and Kenosha, Wisconsin.

On the international front, 16 new plants were opened in 9 countries, including Tuxtla Gutierrez, Mexico; Belem, Brazil; Nuremberg, Koblenz and Amberg, Germany; Trondheim, Norway; Bilbao, Spain; Tripoli, Libya; Oberholzer and Welkom, Union of South Africa; Bulawayo, Southern Rhodesia; and Woy Woy, Maitland, Parkes, Queanbeyan and Adelaide, all in Australia.

At year's end 21 additional plants were under construction in the United States, and 30 new plants had been started in 21 other countries, all scheduled for completion in 1959.

Louisville, Kentucky



the international story

As 1958 drew to a close, Pepsi-Cola International, Ltd. reached approximately 288,000,000 people in 75 countries through 180 bottling plants on all the continents of the world. The name of the product was a recognizable commonplace in 20 languages.

Among the 16 new plants opened in 9 different countries, one marked the initial entrance of Pepsi-Cola into Libya. Acquisition of the DOK plants, 5 in number, in South Africa, reduced seasonal variations in income because these plants lie below the equator where seasons reverse those north of that line.

New International markets opened in 1958 offer a combined annual sales potential of 6,000,000 cases in the immediate future.

In Egypt . . .

In Mexico . . .

Visitors from everywhere drank Pepsi at the World's Fair in Brussels.

Seventy-two plants in operation at year's end had abandoned single-size packaging and were bottling and distributing Pepsi in more than one size bottle. Sales in the hostess package alone showed a 38 per cent increase over the previous year.

Scheduled to open in 1959 are 30 plants located in 21 countries, with an immediate sales potential of 12,000,000 cases per annum.

In Hong Kong . . .

In the Netherlands . . .

Pepsi and people

in the finest restaurants . . .

on planes . . .

in offices and other places of work . . .

at home...

wherever sociable people meet...

on trains...

Out of Bermuda, concentrate
for the Sterling area
and part of South America.

manufacturing

Storage tank capacity at the East River plant in New York was tripled to keep the concentrate supply abreast of the general expansion, while the sugar refinery saw a 25 per cent capacity increase due in part to the introduction of electronic automatic centrifugals.

In Bermuda the new concentrate plant built to serve Bottlers in the Sterling area and part of South America was at peak production. Concentrate originating in Bermuda resulted in approximately 200,000,000 bottles of Pepsi-Cola.

Through the introduction of new equipment and the most modern methods of manufacturing during 1958, the Company was able to increase its concentrate capacity 233 per cent in Oakland and 190 per cent in Louisville.

research and product control

In Long Island City, the most modern of new laboratories.

Constant research and vigilant supervision continued to protect the quality that has earned Pepsi the highest reputation in its field.

During the past year the traveling product control laboratories completed special operations in 288 plants, rigidly guarding every process affecting production of the product.

A new production school for bottling plant superintendents on a national basis and Quality Control Charts further increased local knowledgeability.

The department is in the process of completing a Quality Control Manual which will serve as a measure of standards for Bottlers and Company personnel engaged in production.

As an additional safeguard, we developed a new laboratory to undertake a control operation of all ingredients used and all finished products shipped out by the manufacturing department, this in addition to the routine research on ingredients and processes.

administration

Scheduled for completion and occupation in the fall of 1959, the proud new building at 500 Park Avenue in New York City is so superbly designed as to upgrade its neighborhood and set a new high mark in the contemporary architecture of perfected simplicity. As a shining jewel of Park Avenue, it will be the World Headquarters of Pepsi-Cola.

The Board of Directors elected Dr. Louis Rezzonico as Vice Chairman of the Board and Emmett R. O'Connell, formerly President of Metropolitan Bottling Company, as Executive Vice President of the Pepsi-Cola Company; the Board had previously elected Mr. O'Connell as a member.

Recognizing distinguished service, the Board further authorized the promotion to Senior Vice President of Milward W. Martin, head of the Company's legal department and Secretary of the Company; Louis E. Nufer, Treasurer; and Thomas Elmezzi, Vice President for Manufacturing.

To meet future opportunity from an increased marketing position, the Company established a new Marketing Division under the direction of Vice President William C. Durkee; and including Vice President John J. Soughan, formerly of Advertising, as Director of Marketing Services; and of Charles N. Baker, formerly of National Accounts, as Vice President in charge of Promotion.

The Company also consolidated many activities into a Department of Public Relations under the direction of Vice President D. Mitchell Cox.

Other promotions included those of Marc A. Lefebvre as Vice President for the Central Division; Philip Rubenstein as President of Metropolitan Bottling Company; and Richard Petrie as Executive Vice President of Metropolitan.

In addition, Herman A. Schaefer was elected Administrative Vice President and Director of Pepsi-Cola International.

financial statements

Pepsi-Cola Company and Consolidated Subsidiaries

nine-year comparison

Pepsi-Cola Company and Consolidated Subsidiaries

FINANCIAL RESULTS

	1958	1957	1956	1955	1954	1953	1952	1951	1950
Gross Profit on Sales . . .	$98,372,489	$85,564,391	$69,139,792	$62,823,327	$51,787,727	$45,419,752	$35,022,415	$30,216,383	$23,765,879
Income Before United States and Foreign Income Taxes*	23,989,647	19,669,675	17,884,787	18,880,766	12,703,690	11,384,412	7,834,126	4,192,890	2,544,610
Net Income	11,547,954	9,559,675	8,884,787	9,456,766	6,212,690	5,476,882	3,880,362	2,632,181	1,271,919
Earnings Per Share . . .	1.88	1.61	1.50	1.60	1.07	.95	.68	.46	.22
Dividends	7,238,496	6,220,528	5,915,830	5,897,090	3,769,493	2,871,752	2,010,227	—	—
Dividends Per Share . . .	1.20	1.05	1.00	1.00	.65	.50	.35	—	—
Shares Outstanding . . .	6,138,755	5,926,205	5,918,655	5,909,005	5,813,155	5,743,505	5,743,505	5,736,005	5,736,005

*and before Reserve for Foreign Activities in 1958.

FINANCIAL POSITION

	1958	1957	1956	1955	1954	1953	1952	1951	1950
Current Assets	$36,252,272	$33,748,837	$32,018,582	$32,803,026	$29,309,566	$29,850,407	$23,459,670	$18,538,797	$17,248,807
Current Liabilities	19,019,387	19,396,554	14,566,258	14,300,372	11,227,522	11,854,418	7,048,898	4,830,536	3,784,171
Working Capital	17,232,885	14,352,283	17,452,324	18,502,654	18,082,044	17,995,989	16,410,772	13,708,261	13,464,636
Fixed Assets—Net . . .	34,049,468	31,839,309	24,323,023	20,103,341	17,172,325	14,758,730	13,980,506	15,044,434	10,939,904
Other Assets	13,637,942	11,777,999	6,390,925	5,180,719	4,305,246	3,963,617	3,720,446	3,374,015	3,171,161
Total	64,920,295	57,969,591	48,166,272	43,786,714	39,559,615	36,718,336	34,111,724	32,126,710	27,575,701
Long Term Indebtedness and Customers' Deposits	12,804,641	12,394,706	6,002,051	4,692,600	4,939,642	5,111,280	5,109,798	5,309,341	5,221,898
Reserve for Foreign Activities	3,104,950								
Stockholders' Equity* . .	$49,010,704	$45,574,885	$42,164,221	$39,094,114	$34,619,973	$31,607,056	$29,001,926	$26,817,369	$22,353,803
Book Value Per Share . .	7.98	7.69	7.12	6.62	5.96	5.50	5.05	4.68	3.90

*After reduction attributable to Reserve for Foreign Activities in 1958.

accountants' opinion

HASKINS & SELLS
Certified Public Accountants

67 Broad Street
New York 4

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

We have examined the balance sheet of Pepsi-Cola Company and its consolidated subsidiaries as of December 31, 1958 and the related summaries of consolidated income and surplus for the year then ended. As to companies other than the Philippine Islands subsidiaries our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to the Philippine Islands subsidiaries, we examined reports of other accountants, and the figures of those companies included in the accompanying statements are derived from such reports. Of the consolidated totals, the total assets and total sales of those subsidiaries amount to approximately 7% and 8%, respectively; and net income amounts to approximately 7% of the consolidated total before provision for the Reserve for Foreign Activities.

In our opinion, which as to the Philippine Islands subsidiaries is based upon the reports of other accountants, the accompanying consolidated balance sheet, and the related summaries of consolidated income and surplus present fairly the financial position of the companies at December 31, 1958 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied (except for the change, which we approve, explained in Note 2 to the financial statements) on a basis consistent with that of the preceding year.

Haskins & Sells

March 17, 1959

consolidated balance sheet

December 31, 1958 and 1957

Pepsi-Cola Company and Consolidated Subsidiaries

ASSETS	1958	1957
CURRENT ASSETS:		
Cash	$17,698,176	$16,052,109
Notes and accounts receivable (less allowance for doubtful receivables—1958, $939,253; 1957, $493,138)	9,554,315	9,984,668
Inventories:		
Finished, in-process, raw materials and supplies	7,515,922	6,107,405
Vending equipment held for resale	1,483,859	1,604,655
Total current assets	36,252,272	33,748,837
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	3,197,694	2,619,185
Investment in and advances to subsidiaries not consolidated	527,783	493,061
Other	423,236	476,661
Total miscellaneous assets	4,148,713	3,588,907
PROPERTY, PLANT AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1958, $22,112,231; 1957, $17,433,332)	25,731,442	24,391,371
Bottles and cases on hand and with trade (at estimated depreciated values)	8,318,026	7,447,938
Total property, plant and equipment—net	34,049,468	31,839,309
DEFERRED DEBIT ITEMS:		
Prepaid insurance, taxes, etc.	973,987	630,123
Advertising materials and expenses	3,797,768	3,843,121
Other	222,149	162,236
Total deferred debit items	4,993,904	4,635,480
TRADEMARKS, FORMULAS AND GOODWILL (less amortization)	4,495,325	3,553,612
TOTAL	$83,939,682	$77,366,145

Reference is made to the accompanying Notes to Financial Statements starting at Page 30

consolidated balance sheet

December 31, 1958 and 1957

Pepsi-Cola Company and Consolidated Subsidiaries

LIABILITIES	1958	1957
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term indebtedness)	$ 1,852,329	$ 3,777,949
Accounts payable and accrued	6,458,296	5,733,981
Accrued taxes:		
United States and foreign income taxes	9,135,673	8,243,521
Other taxes	1,573,089	1,641,103
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	19,019,387	19,396,554
OTHER LIABILITIES:		
Long-term indebtedness (current installments included above)–		
Notes payable (1958: $8,265,377 due in 1960, $429,936 in 1961, and $273,228 thereafter)	8,968,541	8,870,444
Customers' deposits on bottles and cases	3,836,100	3,524,262
Total other liabilities	12,804,641	12,394,706
RESERVE FOR FOREIGN ACTIVITIES	3,104,950	
CAPITAL STOCK AND SURPLUS:		
Capital stock–authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding at December 31, 1958, 6,138,755 shares	2,046,252	1,975,402
Capital surplus	7,312,871	7,123,420
Earned surplus	39,651,581	36,476,063
Total capital stock and surplus	49,010,704	45,574,885
TOTAL	$83,939,682	$77,366,145

Reference is made to the accompanying Notes to Financial Statements starting at Page 30

summary of consolidated income

for the years ended December 31, 1958 and 1957

Pepsi-Cola Company and Consolidated Subsidiaries

	1958	1957
Net Sales	$136,819,847	$125,816,044
Cost of Sales	38,447,358	37,681,702
Gross Profit on Sales	98,372,489	88,134,342
Advertising, Selling, Shipping, General and Administrative Expenses	73,598,310	68,145,389
Profit from Operations	24,774,179	19,988,953
Other Income	1,089,702	1,418,691
Gross Income	25,863,881	21,407,644
Income Charges	1,874,234	1,028,636
Income Before Provisions for Income Taxes and Foreign Activities	23,989,647	20,379,008
Provisions for United States and Foreign Income Taxes:		
United States	8,320,000	7,940,832
Foreign	3,330,000	2,526,000
Total	11,650,000	10,466,832
Income Before Provision for Reserve for Foreign Activities	12,339,647	9,912,176
Provision for Reserve for Foreign Activities	791,693	498,695
Net Income	$ 11,547,954	$ 9,413,481

Reference is made to the accompanying Notes to Financial Statements starting at Page 30

summaries of consolidated surplus

for the year ended December 31, 1958

Pepsi-Cola Company and Consolidated Subsidiaries

EARNED SURPLUS:

Balance, January 1, 1958		$36,476,063
Balance, January 1, 1958 of Pepsi-Cola Bottlers of St. Louis, Inc. and Hygrade Water and Soda Company		1,230,069
		37,706,132
Net income for the year		11,547,954
Dividend remitted by a foreign subsidiary in excess of its earnings for the year		124,656
		49,378,742
Less:		
Dividends paid:		
Pepsi-Cola Company ($1.20 a share)	$7,238,496	
Pepsi-Cola Bottlers of St. Louis, Inc. and Hygrade Water and Soda Company before pooling of interests (equivalent to $.25 a share on 206,000 shares of Pepsi-Cola capital stock issued upon combination)	50,752	
	7,289,248	
Appropriation to Reserve for Foreign Activities	2,437,913	9,727,161
Balance, December 31, 1958		$39,651,581

CAPITAL SURPLUS:

Balance, January 1, 1958	$ 7,123,420
Excess of the aggregate par value of capital stock of Pepsi-Cola Bottlers of St. Louis, Inc. and of Hygrade Water and Soda Company outstanding over the par value of Pepsi-Cola capital stock issued in exchange	194,633
Excess of proceeds over par value of 6,550 shares of capital stock issued under stock option plans	97,038
	7,415,091
Less expenses incidental to pooling of interests	102,220
Balance, December 31, 1958	$ 7,312,871

Reference is made to the accompanying Notes to Financial Statements starting at Page 30

notes to financial statements

December 31, 1958

Pepsi-Cola Company and Consolidated Subsidiaries

1. During 1958, Pepsi-Cola Bottlers of St. Louis, Inc. and Hygrade Water and Soda Company (the St. Louis companies) were combined with Pepsi-Cola Company, such combination being a pooling of interests. Accordingly, the accompanying summary of consolidated income includes the results of the 1958 operations of the combined companies for the entire year.

The pooling of interests was accomplished through the issuance of capital stock of Pepsi-Cola Company in exchange for the outstanding capital stock of the St. Louis companies. The excess of the aggregate par value of the capital stock of the St. Louis companies outstanding over the par value of Pepsi-Cola capital stock issued in exchange, was credited to consolidated capital surplus.

2. The accounts of all foreign subsidiaries are included, except as to the British subsidiary (which has been excluded since 1950), in the consolidated financial statements.

As of January 1, 1958 the Company adopted the policy of excluding from consolidated net income the unremitted profits of foreign subsidiaries, other than Canadian subsidiaries, by an appropriation of earned surplus to a reserve therefor. At that date the unremitted profits of such foreign subsidiaries (less applicable charges for amortization of goodwill), on an individual basis, aggregated $2,437,913, for which amount the reserve was initially set up by a charge to consolidated earned surplus.

The provision for the reserve out of consolidated net income for the year ended December 31, 1958 represents such subsidiaries' unremitted profits for that year (before devaluation charges), less (a) such portion of individual company's deficits at January 1, 1958 as did not exceed related profits, (b) applicable charges for amortization of goodwill, and (c) losses arising from devaluation of foreign currencies.

The net current assets, total assets, and total liabilities of consolidated foreign subsidiaries (other than Canadian subsidiaries) were $2,134,558, $16,340,378, and $5,144,979, respectively, at December 31, 1958. The net current assets, total assets, and total liabilities of the British subsidiary were $150,489, $1,027,298, and $346,994, respectively, at that date.

The assets and liabilities of foreign subsidiaries have been translated into United States dollars at current rates of exchange, except that property, plant and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition; income and expenses (other than depreciation) have been translated at rates prevailing during the year.

Provisions for taxes related to transfers of income of Canadian subsidiaries are made only at the time of such transfers.

3. The summary of consolidated income for 1957 is presented, for comparative purposes, on the same basis as for 1958; it includes the operations of the St. Louis companies (see Note 1) for the earlier year, and shows the effect on net income if the Reserve for Foreign Activities (see Note 2) had been established as of January 1, 1957 instead of as of January 1, 1958.

4. The inventories are stated at cost, certain inventories being at average cost and the others being on the basis of first-in, first-out. Such costs were not in excess of market.

5. The federal income tax returns of the Company and domestic subsidiaries and of Canadian subsidiaries have been examined and settled through the year 1956.

6. The terms of an agreement, as amended, relating to certain of the notes payable which mature in 1960 provide, among other things, that the aggregate of dividends paid or declared since December 31, 1956 may not exceed the consolidated net income of the Company and its consolidated subsidiaries since that date. Of the consolidated earned surplus at December 31, 1958, $7,600,000 is free of restriction.

The Company is negotiating with a group of insurance companies a long-term loan of $20,000,000 which is expected to be closed on March 19, 1959. The proposed terms of the loan agreement contain provisions relating to the maintenance of consolidated working capital of the Company and certain subsidiaries, and restrictions on the payment of dividends and the purchase of shares of the Company's capital stock. If the agreement as presently proposed had been in effect as of December 31, 1958 the amount of consolidated earned surplus free of restriction would have been $7,500,000.

7. During 1952 and 1956 the stockholders approved the adoption of Stock Option Plans under which 400,000 shares of the Company's capital stock were made available for the granting of options to officers and key employees. On December 12, 1958 the Board of Directors granted an option for 75,000 shares to Mr. A. N. Steele subject to the approval of the stockholders. The following is a summary of the status of the options during 1958:

	Number of Shares	Option Value	Market Valuation at Dates of Grant
Shares under option at December 31, 1957 . .	166,700	$3,553,190	$3,759,275
Options granted during year	123,000	2,858,803	3,070,688
	289,700	6,411,993	6,829,963
Options exercised during year	6,550	99,222	113,294
Options lapsed during year.	9,950	225,678	237,556
	16,500	324,900	350,850
Shares under option at December 31, 1958 . .	273,200	$6,087,093	$6,479,113

Options granted under the 1952 and 1956 plans are exercisable within five years from the respective dates of grants. The option granted to Mr. Steele is exercisable within eight years.

At December 31, 1957 and 1958, 57,050 shares and 19,000 shares, respectively, were available for grants.

8. The Company and its consolidated subsidiaries are tenants under 73 leases with original terms of more than one year which expire at various dates to 1992. The present minimum aggregate annual rental under these leases is approximately $1,360,000. In addition, under a lease agreement negotiated in 1958 the Company will become a tenant in an office building scheduled for completion by January 1, 1960, for a period of 27 years from the date of completion, with renewal options. The minimum annual rental, based upon the projected cost of the premises, is estimated to be approximately $520,000 for the initial period, and lesser amounts during the terms of the renewal options. It is the intention of the Company to sub-lease a portion of the premises, which would serve to reduce the cost of occupancy.

9. At December 31, 1958 the Company and consolidated subsidiaries were contingently liable as guarantors of loans, principally to various franchised Bottlers, aggregating $3,868,000.

10. Certain vending equipment acquired by bottlers is purchased by them on the installment basis; unpaid balances on such acquisitions amounted to approximately $10,500,000 at December 31, 1958. The Company has agreed to purchase such equipment, in the event of default by the buyers, for the unpaid balance; purchases by the Company under such agreements have not been material.

11. The provisions for depreciation and amortization charged to manufacturing and expense accounts amounted to $4,850,000 in 1958, and $4,070,000 in 1957 on a comparable basis.

EXECUTIVE OFFICES

3 West 57th Street
New York 19, New York

DIVISION OFFICES

35 East Wacker Drive
Chicago 1, Illinois (Central)

1012 14th Street, N. W.
Washington 5, D. C. (Eastern)

720 Vaughn Building
Dallas 1, Texas (Southern)

223 South Beverly Drive
Beverly Hills, California (Western)

REGIONAL OFFICES

1401 Peachtree Building
Atlanta 9, Georgia

35 East Wacker Drive
Chicago 1, Illinois

4300 LeVeque Lincoln Tower Building
Columbus 15, Ohio

720 Vaughn Building
Dallas 1, Texas

817 17th Street, Suite 731
Denver 2, Colorado

785 Market Street
San Francisco 3, California

37 Lewis Street
Hartford, Connecticut

1012 14th Street, N. W.
Washington 5, D. C.

1404 Wachovia Bank Building
Charlotte 2, North Carolina

Address all communications to:

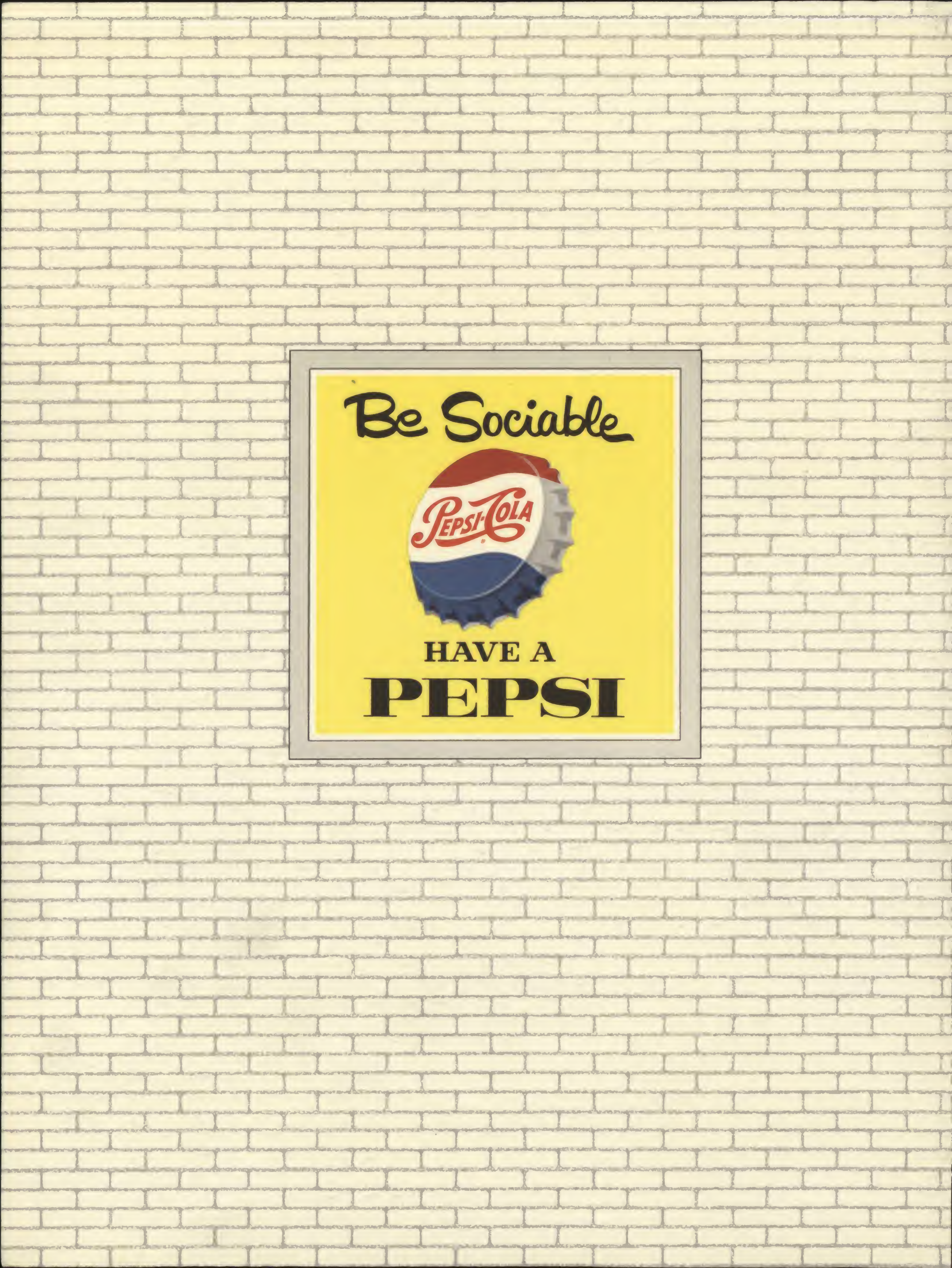
Secretary, Pepsi-Cola Company
3 West 57th Street, New York 19, New York

LITHO IN U.S.A.

ANNUAL MEETING

The Annual Meeting of our Stockholders, which is held each year at the Company's home office in Wilmington, Delaware, will be held there this year at two o'clock in the afternoon, on Wednesday, May 6.

A proxy and a proxy statement will be mailed to you shortly.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